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THE VALUE THEORY AND PRICE POLICY OF EAST GERMANY

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Fred Oelssner

The resolution of the 25th Plenary Session of the Central Committee of the SED (Socialist Unity Party) contains the following statement: "The main weakness of the banking and financial organs lies in the insufficient knowledge of the laws of economics and their application to our actual economic and political conditions and tasks."

The criticism thus raised applies likewise to all other economic organs of the state; none of them in addition to their specific shortcomings, know how to make use of the objective laws of economics and to turn them into effective levers of economic activity. This refers especially to the application of the law of value; only a very few of our economic officials are familiar with its many-faceted depth. This is why the law of value is being constantly violated in economic policy, thus causing losses to the state and hampering economic development. These shortcomings show up most conspicuously in price policy which, of course, is most intimately connected with the application of the law of value.

The following few pages are devoted to the value theory in connection with GDR price policy; the prices of consumer goods will be treated primarily, because the movement of consumer goods reflects commodity interrelationship in its purest form and because the law of value, if violated by price policy, makes itself felt with elementary force in this field.

The German Democratic Republic has to contend, to a high degree, with true commodity relationship (Warenbeziehungen) in the consumer goods market, since a large part of these goods are produced by the private sector of the economy. This makes it all the more important to have a full command of the law of value in order to eliminate, as far as possible, its spontaneous effects and to forge it into an instrument in the service of the state. The first condition, however, for a conscious utilization of an objective law is the exact knowledge of its nature and effects.

A. Use-Value and Value

Karl Marx, starts his main work with an analysis of the work "commodity" and discusses its two factors, its use-value and value. A clear understanding of the difference, as well as the relationship of these two factors, is basic to the knowledge of the law of value. Quite a number of GDR economists, especially among the banking and finance officials, are not at all clear with regard to the basic understanding of the law of value; hence, they fail to take it into consideration in their practical work, an attitude which must lead to its violation.

Every commodity has a double character which consists of use-value and value. The use-value is the indispensable basis for the value, it is the foundation of the value. Values can be produced only in the form of use-values. Since the use-value is basic to the value, it follows that the preservation of the use-value is basic to the preservation of value. The production of many commodities is possible only at certain periods (such as vegetable products of agriculture); these goods require a considerable addition of labor input to preserve their use-value. This additional labor increases their value without increasing the wealth of society. Karl Marx has this to say about it: "The increase in value caused by the use of additional labor in their production is distributed pro rata over the various commodities since costs vary according to the type of commodity. Yet, the costs of establishing and keeping stocks have to be deducted from the wealth of society in spite of the fact that they are a basic condition for the very existence of such wealth."

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The size of such value-increasing costs is illustrated, for example, by the fact that it costs 27.60 DM to preserve a ton of grain till the next harvest. In the case of grain and similar products, the preservation of the use-value is a matter of absolute necessity, it is required by nature and is therefore socially necessary. But other products too, even though their manufacture may be independent of the season of the year, rarely ever have a constant use-value in the absolute sense. The use-value of all commodities is exposed to many-fold influences, most of which cause reductions in value. Such value reductions are brought about by:

1. Spoilage. Most foodstuffs are subject to spoilage within a shorter or longer period of time. Manufactured articles are equally exposed to deterioration: fabrics loose their color, rubber goods becomes brittle, etc.

2. Fashion influences, which primarily affect clothing, furniture, household goods, automobiles, and others.

3. Model deterioration occurs especially with regard to machines, radio and television sets, cameras, etc., when they are superseded by new and improved models.

It should be self-evident that a reduction in the use-value of a commodity influences its value. In that case the value embodied in the product at the time of its manufacture (the socially necessary labor incorporated in it) can be realized only partly or not at all. For example, if meat is spoiled through extended or unsuitable storage, the value it represents is lost. When textiles or shoes go out of fashion, the value incorporated in them cannot be fully realized. Nobody will buy an old-fashioned coat if he can obtain a modern coat of equal quality for the same amount of money. If at least part of the value incorporated in such goods is to be realized, their prices have to be reduced below their original value to a level at which the merchandise is still saleable. The quicker this is done the better. Tradespeople have a good proverb which says: "The first loss is the smallest." These words are based on the unconscious recognition of the law of value with regard to the relationship between use-value and value. Once the reduction in the use-value has started, it progresses quickly and soon the point is reached when the commodity has lost its use-value altogether and has become worthless.

This should be commonplace knowledge, yet many financial officials refuse to recognize this truism.

Of course, these officials know the difference between use-value and value, as well as the relationship between these two concepts. They forget what they know, however, when practical questions are to be decided. This is due to the fact that the commodities, coming from production, are being accounted for on the books at their full price. Expenditures for materials and wages needed for their manufacture, as well as the use of working capital, have been debited on the books. At the time these prices were posted, they actually corresponded to the real value of the commodities. If they had been sold in time, their book value would have been fully realized. If, however, a reduction in their use-value took place, their value was equally reduced, the book-value thus changed partly (or wholly) from a real to a fictitious value. Financial officials, however, do not want to admit this fact; they cling to the fictitious book values, they oppose any price reduction which would, presumably, entail a loss to the state budget and insist on full realization. Of course, there has been a loss to the economy. But the loss was caused by a reduction in the use-value of the commodity due to the slowness of sales realization. Under such circumstances, if realization of the commodity is further delayed because of insistence on the old price, the only result to be expected is a total loss instead of a partial one.

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Financial officials who insist on their book values act, of course, in the belief that they represent the interests of the state. Yet, is it not obvious that this belief rests on a lack of understanding of the relationships between use-value and value, that is to say, a lack of understanding for the theory of value? If they had understood Marx correctly they would know that book values are real values only to the extent to which they represent actual use-values which embody the same real values.

Quite another story is the propensity for feigning reductions in use-value, found in many trading enterprises, which hope to be better able to fulfill their turnover plan by lowering their prices.

The connection between use-values and values is of special importance when fixing the prices of perishables. In the morning, when fresh vegetables reach the sales counter they have their full use-value and can be sold at the fixed price. Whatever is left at noon has already lost part of its use-value because it is not quite as fresh. Only a suitable reduction in the sales price can insure its sale. Without this price reduction the vegetables are left over and become totally worthless by evening, at which time they have to be completely devalued. This not only causes a loss to the state or to the cooperative which sells the vegetables, it also destroys valuable foodstuffs which, under a more sensible price policy, could have added to the supply of the population.

Hence, it is necessary to invest the managers of the trading agencies with the authority to reduce, within certain limits, the prices of perishables if this step would promote their sale. This goal is to be achieved through the "Decree Concerning the Handling of Commodities With Reduced Value in State and Cooperative Trade," dated 5 August 1955. This decree however renders price fixing for such commodities so complicated that effective results remain doubtful. The Ministry for Trade and Supply, together with the representatives of the sales agencies, should find ways and means for introducing such price corrections with a minimum of red tape.

B. Market Value and Value

On 9 December 1952, in an announcement titled "Position of the Politbureau Toward the Price Policy," it was requested that "all price formation should be based on scientific grounds."

Though this request raised a number of questions, economic scientists have paid very little attention to the theoretical foundations of GDR price policy over the last 3 years.

The main problem consists in ascertaining how to make the best use of the basic economic law of socialism, the law of planned (proportional) development, and the law of value. The law of value is an economic instrument for the realization of the law of planned (proportional) development in order to achieve the basic economic law of socialism. But how shall we handle this instrument? In production, the law of value serves to calculate the social input of incorporated and additional new live labor. This labor input must be the starting point for the fixation of prices. But which input? The ones in each individual enterprise? This would never lead to uniform fixed prices. Perhaps the input in the most progressive enterprise? All others would then produce at a loss. Or perhaps the input of the most backward enterprise? This would unduly increase prices. The average, then? Even this would make life very easy for enterprises producing under favorable conditions and would deprive them of any incentive to improve their production; while the enterprises working under unfavorable conditions could never become profitable.

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During the last exhibition of shoes in Leipzig, I had the following experience:

The people-owned shoe manufacturing enterprise from Gorlitz exhibited a very handsome high-quality shoe. The shoe was immediately bought by the trade and the whole anticipated production was sold out in 2 days. However, the enterprise was unable to start production because, under the existing rules of price calculation, it would have incurred a loss of 150,000 DM. This was due to the fact that the rules were developed on the basis of conditions prevailing in the "Banner of Peace" Shoe Plant in Weissenfels which has more modern machines and produces larger quantites. The affair was finally straightened out with the help of certain central organs in Leipzig; it raises, however, a principal question of price policy: how is the law of value to be applied in establishing uniform fixed prices for consumer goods?

According to Marx, the value of a commodity is governed by the average amount of labor, that is by the socially necessary amount of labor needed to produce it. He felt that "The socially necessary amount of labor is the amount of labor required to produce an article of use under prevailing normal social conditions of production and with the average degree of skill and intensity."

This definition refers to the stage of simple economic development. Under capitalism a commodity is not sold any more at its value but at its production price which is composed of the cost price plus the average profit. The production price is established through competition which equalizes the individual rates of profit to an average profit rate. This equalization, however, is preceded by a competitive fight within each sphere of production which equalizes the various values of the individual enterprises to a market value. Marx designates this market value also as social value.

Marx defined market value as follows: "On the one hand, market value is the average value of the commodities in our sphere of production; on the other hand, it is the individual value of a commodity which has been produced under the average conditions of a production sphere and which is representative of the bulk of the products within that sphere."

This market value takes the place of the value in the various branches of production. It regulates supply and demand and constitutes the center around which market prices fluctuate. Marx says: "Thus, while supply and demand regulate the market price or, more exactly, the deviations of the market price from the market value, so does the market value regulate the relationship of supply and demand or the center around which the fluctuations of supply and demand cause market prices to oscillate."

The market value or social value is thus an important factor in Marx's value theory, a theory which so far has been underestimated both in theory and practice. On what is this factor based and why is it needed? The need for a market value results from the social development of production, from the social division of labor, from the varying levels of development in the enterprises and from the relative importance of these enterprises for satisfying certain social needs. The mechanism through which market values are formed is the competition between the various enterprises in a given sphere of production and the buyers of a certain commodity.

In a socialist economy, there is no competition between the various enterprises, neither is there competition between the various branches of production. But does this mean that the market value, the social value of a commodity, has lost all its meaning, that one may disregard Marx's theory of the market value? It is being very much disregarded at present; the most practical economists have hardly a faint idea of the definition of market value.

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This disregard cannot be justified in any way. For as long as the law of value remains valid, market value, or social value, remains an objective magnitude and must be taken into consideration in price policy.

It will be a long time before the unequal development of GDR enterprises is overcome, since technical progress does not stand still in any one plant. In a people-owned economy, however, there is no competition (Konkurrenzkampf) to equalize differences and to transform individual values into market values. Hence, it is in planning and price policy that the GDR has to take account of the market value and make a conscious effort to use it. If this is not done an economic law which would enforce itself spontaneously, is violated.

It must not be assumed that conscious utilization of market value implies that prices should be identical with it; this is not the case, because price fixing is an important function of economic policy, not exclusively based on economic considerations. Market value has to be the basis for ascertaining costs in a given branch of industry. If, for example, disregarding the market value factor, prices for consumer goods, were set on the basis of the specific conditions of production prevailing in the most advanced enterprise, enterprises working under average conditions would have to sell their goods below market value, while enterprises producing under the poorest conditions would consistently have to sustain losses. Yet, since the market value of all the goods supplied by a branch of production is equal to their total value, this would mean that they are sold below their value. The state would have to renounce a substantial part of its centralized net income and many enterprises would show no profit. This would slow up accumulation of capital and would hamper socialist development.

But if market value is used as the basis for price formation, the centralized net income for the state is assured. When the market value in a given branch of industry is determined, according to plan, it is nevertheless possible to base it on such standards of labor and material consumption that the enterprises are forced to strive for a steady improvement of their conditions of production.

Would not the application of the market value lead to similar unequal situations in the various enterprises? Of course. Enterprises with favorable conditions of production would achieve greater earnings without greater effort, while enterprises with unfavorable conditions would obtain only small earnings, even with the greatest of effort. Such a disparity is unavoidable when uniform fixed prices prevail while the conditions of production remain unequal. This lack of equality must be overcome by other means, namely through the surrender of earnings to the state budget, scaled according to actual conditions in the various enterprises. This method leaves the enterprises a planned net income or "profit" for certain investments, for the replenishment of working capital, and for contributions to director's funds. The net income of enterprises must be planned in such a way as to give them enough material incentive for improving profitability through an increase in labor productivity and for lowering prime costs. In this way they are able to reduce the market value, which is a prerequisite for the lowering of the sales price.

In this connection one must remember that the disparity between various enterprises is subject to many changes: first, through investment policy in a Worker-Peasant State, as dictated by the basic economic law of socialism; second, through the assistance provided by progressive enterprises to backward plants in raising labor productivity.

What, then, is the relation between the application (utilization) of the market value in the price policy for consumer goods and the realization of the basic economic law of socialism? There is no contradiction. The basic economic

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law of socialism demands the insurance of a maximum, a steadily improving, satisfaction of the continuously rising material and cultural requirements of society. The systematic reduction of sales prices for consumer goods naturally plays an important role in this endeavor, provided the reduction is true and reflects a reduction of the social value (the market value) through improvements in production. A lowering of consumer prices below the social value would endanger the realization of the second part of the basic economic law, namely, the uninterrupted growth and the steady perfection of socialist production, based on the highest technical development, since the sale of goods at a price below that of their market value would reduce the accumulation of capital.

C. Concept of Socially Necessary Labor

While the substance of value is represented by human labor in its abstract form, as part of the totality of social labor, the magnitude of value is determined by the socially necessary labor.

Marx expands the concept of socially necessary labor and defines the market value as the input of labor required under the average conditions in a sphere of production. This definition suffices to cover the production of value. However, it is not enough to produce value, it must also be realized; i.e., the produced articles must be sold. This holds true not only for capitalism but for any type of goods production including goods produced under socialism. Every commodity must go through the commodity-money cycle in order to realize its value. Only through this cycle will expenditures be replaced and net income realized; this applies equally to socialist conditions. As long as the goods are not sold, there is no way of using the net income incorporated in them for the purposes provided for in the plan.

Realization of value depends on the existence of a definite social requirement which can be satisfied by the commodity in question. Marx writes:

"For a commodity to have use-value means only that it satisfies some social requirement. As long as we discussed individual goods we could make the assumption that there was a demand for these particular goods, the prices of which also reflected their quantity, without going any further into the question of the volume of the demand to be satisfied. This volume, however, assumes importance as soon as we begin to deal with the output of a whole branch of industry on the one hand, and with social demand on the other. This is the moment when it becomes necessary to take a look at the volume, that is to say, the quantity of such social requirements.

"When the supply of a certain commodity corresponds to the volume of existing demand, the commodity will be sold at its market value. However, if the supply of a commodity is smaller or larger than the demand (that is to say, the social requirement), the market price deviates from its market value."

The relation between the volume of supply and the volume of social demand is of special importance because any disproportion which occurs between them exerts its influence on the market value. The labor put into the manufacture of a certain quantity of goods counts as socially necessary or value creating labor only to the extent to which it corresponds to the volume of social demand on which it was spent. If it is below this demand, the producers of this commodity will receive a part of the value produced by other manufacturers of goods. If it is above the volume of social demand, it does not count as socially necessary labor, it does not produce any value, it is wasted labor. Marx says:

"Though every single article or every specific quantity of a commodity group contains only the social labor needed for its production, and though as seen from this angle, the market value of this total commodity group represents

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nothing but necessary labor, there nevertheless occurs some waste of a part of this social labor if this particular commodity has been produced in a quantity which exceeds the social requirements at a given moment; in this case, the group of goods represents a much smaller amount of social labor on the market than it actually contains."

This means that the goods represent also a much smaller value which can be realized. Such goods have to be gotten rid of at much lower prices or they may be completely unsaleable.

Do the above laws also operate in the GDR? The so-called excessive stocks (Uberplanbestaende) which often accumulate in our economy are proof enough. If, for example, large surplus stocks of textiles occur, they indicate a disproportion between supply and demand. There are only two ways to eliminate this disproportion; either to reduce production and adjust the supply to the existing demand, or to lower prices.

The conclusion from the above discussion was drawn already by Karl Marx when he wrote:

"Only when production is under effective predetermined control of society, can society establish the relationship between the volume of social labor to be spent on the production of certain articles and the volume of social requirements to be satisfied by these articles."

But in what way are these connections to be established? It is obvious that it cannot be done merely through the application of the law of value alone. The task consists in correctly applying the law of value on the basis of the socialist law of proportional development according to plan. As a starting point, one must determine, as nearly as possible, the volume of social requirements at a given price level; thereafter, production has to be planned in accordance with these requirements.

This is, however, by no means a simple affair because such requirements vary greatly and are themselves influenced by the level of the market value. For example, when the market value and the market price of a product are lowered through a reduction in primary costs, it is important to realize that this will increase the social requirements, that is to say the demand for this particular commodity; hence, it will be necessary to produce more than before. Unless this is done to a sufficient degree, this type of commodity will become scarce, speculators will get hold of the commodity and sell it on the black market where, because of the spontaneous effect of the law of value, a corresponding price adjustment will take place. The main task, therefore, consists in determining the demand as exactly as possible and to adjust production to it.

Socialist production must fully satisfy the requirements of the working people, in accordance with the basic economic law of socialism. Price policy, therefore, must strive for a steady expansion of demand through continuous price reductions, and attempt the full satisfaction of this expanded demand. The possibilities inherent in the development of socialist production are the basis for achieving this goal. Starting with these factors, prices must be established in such a way that they will insure a maximum satisfaction of requirements together with a maximum profitability for the producing enterprises. It would be wrong to assume that maximum profitability can be obtained through high prices. On the contrary, high prices may limit the sale of a commodity to such an extent that profitability may drop.

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Hence, the crucial problem is the determination of the right price level which will guarantee the greatest expansion of social requirements, as well as the highest profitability to the producer. This can be done only by establishing, in a scientific way, the relationship between social requirements which are to be satisfied by these articles. This relationship can be established only through the application of the law of proportional development according to plan, which must be used in conjunction with the law of value and the law of supply and demand.

D. Supply and Demand

The value or market value of a commodity is determined by the socially necessary labor needed for its production. The price is the monetary expression of this value.

In an anarchic market, prices are determined by supply and demand, while the value (market value) is the focal point for price movement. When supply exceeds demand, prices fall. These fluctuations place the working people, who cannot chose the period for making purchases of certain goods, at a great disadvantage.

The GDR economy does not have a free movement of prices, because prices are established according to plan. From this one might draw the conclusion that supply and demand might have equally lost any influence here. This interpretation is wrong. The law of supply and demand has not lost its effect; it still exerts its influence all over the consumer goods market.

Supply and demand have still retained some influence even in trade with basic foodstuffs, the prices of which are fixed by the Council of Ministers, but have been repeatedly lowered. Stable prices of basic foodstuffs offer an immense advantage to the working people, protecting them against price increases for the most important foodstuffs. Potato prices in West Germany, for example, rose considerably during the last few months because of the bad crop which was exploited by unscrupulous speculators. Potato prices in the GDR did not rise, although the potato harvest was not good either. Last October and November, an excessive demand for margarine led to a tight supply situation in some Bezirke; yet nobody thought that the price of margarine could possibly be increased. Of course, a rise in the margarine prices last October could have done away with the difficulties at one fell swoop, but the government did not for a moment consider such measures which would be contradictory to the basic principles of GDR price policy. On the contrary, the government introduced certain changes to increase the supply and thus to cover the extraordinarily increased demand at the old prices.

These examples illustrate the fact that supply and demand are still effective, even with regard to basic foodstuffs, and that the law of value extends its regulatory influence to production as well. The low prices for basic foodstuffs, especially for items bought on ration cards, are one of the reasons for the extraordinary volume of requirements and consumption of foodstuffs, causing not inconsiderable supply difficulties in view of existing production and import facilities. These difficulties can be overcome, especially through an increase in agricultural production on the one hand and through an expansion of exports on the other. The scarcity of coffee, for example, can be eliminated only if more industrial goods are sold on the capitalist world market and the proceeds from such sales used for the import of additional coffee. The great demand for foodstuffs could also be lowered through a greater supply of high-quality industrial goods; a larger share of the purchasing power would be spent on these goods, if they were available, rather than or butter and meat.

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The situation on the industrial goods market is different from that on the foodstuffs market, especially for goods which are largely subject to moral and fashion influences. This is a field in which the law of supply and demand still exerts a very strong influence, and where, due to the prevailing all too rigid price policy in the GDR, excessive stocks constantly accumulate and must be disposed of at great losses. If such losses are to be avoided in the future, trading agencies must be granted a degree of flexibility in price formation which will permit them to make use of the law of value and to counter the pressure of the law of supply and demand This applies primarily to trade agencies for industrial consumer goods, especially those which are subject to fashion and related influences.

Starting from the market value of a commodity, the trader must be in a position to charge higher prices for fashionable and new articles and cheaper prices for less modern and older goods. This should enable him to realize the over-all market value for the total volume of goods. At the same time, this procedure would also insure the realization of the centralized net income to the state. For example:

The stores are offering last season's shoe "A" for 16 DM. The shoe industry then produces a new, fashionable shoe "B" of the same quality for a market value of 15 DM. The labor input has evidently decreased somewhat. If shoe "B" should be offered at its market value, namely at 15 DM without doubt the available stocks of shoe "A" will become unsaleable. They constitute surplus stock. Hence one must proceed differently.

Dealers take over shoes "B" from the industry; that is, one million pairs at a cost of 15 million DM which represent 3 million net income for the state. The sales price is set by the traders themselves, taking into account use-value in relation to prevailing shoe prices for shoe "A." The retail trade will offer the new shoes at 17 DM, and, at this price shoe "A" can still be sold at 16 DM. Assuming that 750,000 pairs of shoe "B" are sold during the season, the trade will gross 12,750,000 DM. At the end of the season, 250,000 pairs of shoe "B" are left which will probably be difficult to sell next year.

In the meantime, the industry has again brought out another modern shoe "C" which is perhaps, valued at not more than 14 DM. An end-of-season sale on shoe "B" will, therefore, be arranged. Since the retail trade need not realize more than an additional 2,250,000 DM for shoe "B," the price can easily be reduced from 17 DM per pair to 9 DM, which offers an excellent chance for the sale of all remaining shoes.

The trading agencies will thus have realized the full 15 million DM on the complete lot of shoes "B," which means that the shoes have been sold at their value, the net income of the state, amounting to 3 million DM has been fully realized, and the end-of-season sale did not put any burden on the budget. The law of value has been truly and consciously applied; the reduction in the use-value of shoes "B" was prevented from deteriorating into a total loss. The people will approve of such a price policy because nobody can understand why merchandise with a higher use-value (new fashions) should be sold cheaper or at the same price as goods of lower use-value (out of style).

Yet, does not such a price policy contradict the basic economic law of socialism and the principles governing price reductions? Not at all. There is certainly no true price reduction when merchandise has to be sold below its market value at the expense of the state. Such a procedure actually impedes the realization of the basic law; it cuts down on the net income to the state, that is, on the funds reserved for capital accumulation and for the improvement of the standard of living. True price reduction can only be achieved through anl increase in labor productivity and a lowering of primary costs. This is exactly

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the type of price reduction obtained in the above example. Since the market value of shoe "A" is 16 DM per pair; for shoe "B," it is 15 DM; and for the shoe "C," it is 14 DM. Since the market value is always the basis for the establishment of the market price, it follows that the sales prices of the shoes "A," "B," and "C" are successively reduced.

The main thoughts behind the above proposal are as follows: The accululation of excessive stocks is to be prevented through the establishment of elastic prices for consumer goods whose use-value is subject to rapid deterioration; the law of value is to be consciously applied and the volume of demand to be determined as exactly as possible in order to obtain a realistic basis for the establishment of production plans for various commodities.

It has often been claimed that the difficulties experienced in GDR price policy for industrial goods is caused by the fact that there is not enough opportunity for the law of value to exercise its spontaneous effects. A balanced relationship, so to speak, between planning and spontaneity should be established. This thought is, of course, absurd. Anarchy (spontaneity) and planning cannot be reconciled. While the spontaneous effect of the law of value cannot be completely eliminated during the transition period, the main problem lies in the correct utilization of the objective economic laws, which means the maintenance of complete control over the price movement while applying the law of value.

The better this is learned, the more effectively the spontaneous effects of the law of value will be reduced. If mistakes are made and the laws are violated, they will nevertheless enforce themselves. Every endeavor should therefore be made to avoid mistakes; to strive for a better understanding of the essence of the economic laws and their effects; to learn to apply them correctly, so as to make these laws a powerful instrument in the successful construction of the foundations of socialism.

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